

# FDIC State Profile

Spring 2004

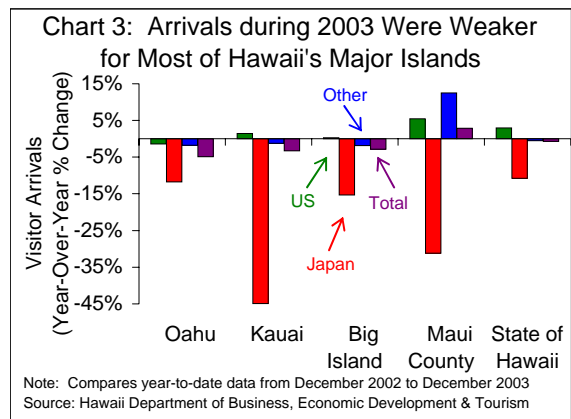
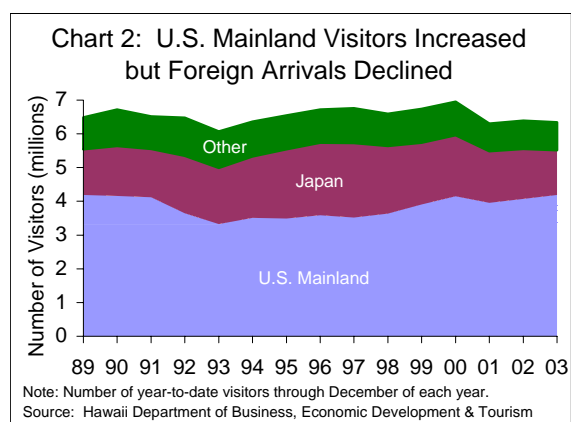
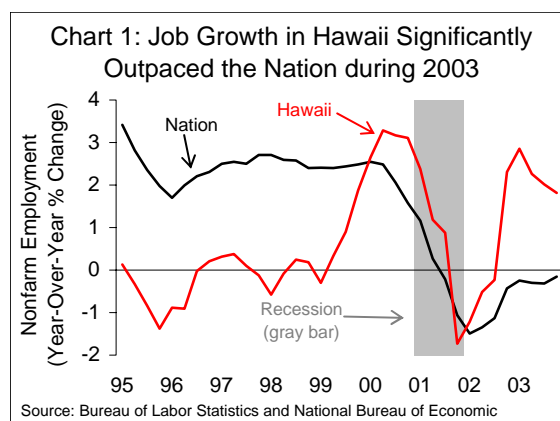
## Hawaii

Hawaii's nonfarm payroll employment growth continued to significantly outpace the nation.

- Nonfarm jobs in Hawaii grew by 1.8 percent year-over-year in fourth quarter 2003 (See Chart 1). Although job growth moderated as 2003 progressed, performance in the first few quarters of 2003 appeared robust, in part, because of comparisons with weak year-earlier figures following the September 2001 terrorist attacks.
- Fourth quarter employment growth was dampened by softness in the important government sector, continued structural employment declines in the nondurable manufacturing sector, and job contraction in information services-related industries. Offsetting those declines were strong job gains in the key leisure and hospitality, education and health services, professional and business services, and construction sectors, which each grew by at least 2 percent between fourth quarter 2002 and fourth quarter 2003.<sup>1</sup>
- Although the state's unemployment rate deteriorated slightly year-over-year to 4.1 percent in fourth quarter 2003, it was the eighth lowest rate in the nation.
- The planned deployment of 8,000 Oahu-based military personnel in early 2004 could dampen economic activity in the near-term. Military deployments during the Persian Gulf War in 1991 contributed to double-digit drops in business for retailers, gas stations, and restaurants in Oahu. Recent efforts at diversification by local merchants and a pickup in military construction could help offset the loss of business associated with this deployment.

The growth in U.S. mainland tourism has not fully offset the decline in foreign visitors.

- Tourists from the U.S. mainland, which comprised just over 60% of Hawaii's visitor base, increased by 2.9 percent on a year-over-year basis during 2003. However, a 10.7 percent decline in visitors from Japan (the state's greatest source of foreign visitors) continued to dampen the



<sup>1</sup>Because of data limitations, the growth rate is based on aggregate jobs in the mining and construction sectors; however, construction jobs are believed to dominate the data series.

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industry (See Chart 2). As a result, the full year visitor count in 2003 fell by 0.7 percent when compared with 2002.

- During 2003, the statewide reduction in total visitor arrivals was led by Oahu, which reported declines in both international and domestic visitors. Maui was the only major Hawaiian island that reported an increase in full year visitor arrivals (See Chart 3).
- Differences in visitor levels affected revenue-per-available room (RevPAR) growth across the Hawaiian Islands. When compared with 2002, RevPAR during the first eleven months of 2003 increased 8.2 percent in Kauai, 7.7 percent in Maui, and 5.3 percent in Oahu. However, Big Island RevPAR increased by a more modest figure of 2.2 percent during the same time period.<sup>2</sup>

### Insured institutions headquartered in Hawaii reported improved earnings and asset quality performance through year-end 2003.

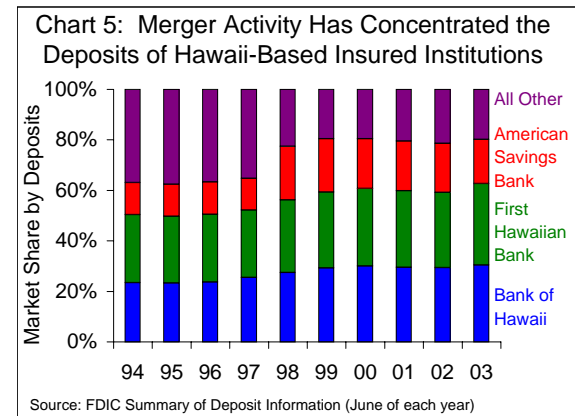
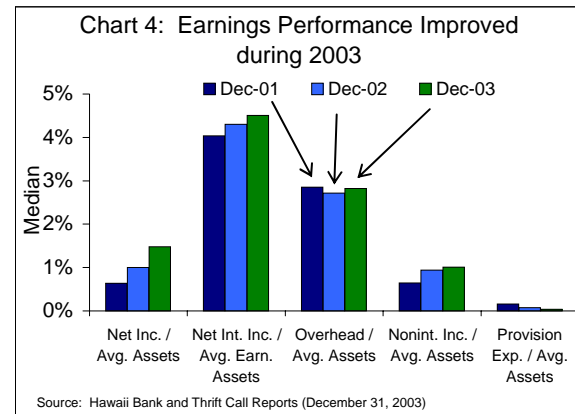
- Six of the state's eight insured institutions reported year-over-year improvements in return on average asset (ROA) ratios in 2003.
- Over the past few years, net interest margins (NIMs) generally benefited from declining interest rates and a steepened yield curve, primarily because most of the state's eight insured institutions are either large, liability-sensitive banks or thrifts specializing in long-term mortgages. However, this implies that NIMs may compress should interest rates increase.
- Declining provision expense ratios also improved ROAs during the period (See Chart 4).
- The median overall past-due loan ratio for insured institutions based in Hawaii declined to 0.86 percent in fourth quarter 2003, down from 1.50 percent in fourth quarter 2002. Over the period, delinquency ratios fell across all major loan categories. The state's relatively strong economic performance likely contributed to the trend. Also, high refinance activity has reduced seasoning in residential mortgage loan portfolios, which account for more than one-third of all loans held by Hawaii-based insured institutions. Additional credit softening could appear with a lag as portfolios age.

### Hawaii has increasingly become a concentrated banking market.

- Significant merger activity between fourth quarter 1992 and fourth quarter 2003 reduced the number of

Hawaii-based insured institutions by nearly two-thirds, from 23 to 8.

- A few local competitors dominated the market. As of June 2003 (the latest available branch information), 78 percent of Hawaii bank and thrift branch deposits were controlled by the three largest in-state insured institutions. In contrast, in 1994, these three institutions reported a 63 percent market share (See Chart 5).
- Credit unions offered an important source of competition for community banks. The ratio of credit union memberships-to-population in Hawaii was 55.9 percent as of September 2003, nearly twice the national average of 28.9 percent and fifth only to Virginia, D.C., Alaska, and Utah.<sup>3</sup> At mid-year 2003, the 99 credit unions headquartered within the state controlled nearly \$5.1 billion in deposits, equivalent to about 19 percent of the combined deposits of credit unions, commercial banks, and savings institutions.
- Competition from large, in-state insured institutions and credit unions might place downward pressure on loan yields and upward pressure on deposit costs.



<sup>2</sup>RevPAR figures are based on a survey of hotels, condominiums, and other rental units by Smith Travel Research.

<sup>3</sup>Membership-to-population ranking is based on June 2003 membership data from credit union Call Reports

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### Hawaii at a Glance

| General Information                        | Dec-03     | Dec-02     | Dec-01     | Dec-00     | Dec-99     |
|--|------------|------------|------------|------------|------------|
| Institutions (#)                           | 8          | 9          | 10         | 10         | 13         |
| Total Assets (in thousands)                | 31,928,491 | 30,395,873 | 29,989,071 | 30,861,222 | 30,646,060 |
| New Institutions (# < 3 years)             | 0          | 0          | 0          | 0          | 0          |
| New Institutions (# < 9 years)             | 0          | 0          | 0          | 0          | 0          |
| Capital                                    | Dec-03     | Dec-02     | Dec-01     | Dec-00     | Dec-99     |
| Tier 1 Leverage (median)                   | 8.21       | 8.71       | 8.31       | 8.47       | 8.38       |
| Asset Quality                              | Dec-03     | Dec-02     | Dec-01     | Dec-00     | Dec-99     |
| Past-Due and Nonaccrual (median %)         | 0.86%      | 1.50%      | 1.95%      | 2.07%      | 2.42%      |
| Past-Due and Nonaccrual >= 5%              | 0          | 1          | 2          | 1          | 3          |
| ALLL/Total Loans (median %)                | 1.86%      | 1.87%      | 1.71%      | 1.68%      | 1.75%      |
| ALLL/Noncurrent Loans (median multiple)    | 4.65       | 2.42       | 1.65       | 1.09       | 0.71       |
| Net Loan Losses/Loans (aggregate)          | 0.22%      | 0.34%      | 0.71%      | 0.68%      | 0.66%      |
| Earnings                                   | Dec-03     | Dec-02     | Dec-01     | Dec-00     | Dec-99     |
| Unprofitable Institutions (#)              | 1          | 1          | 1          | 3          |            |
| Percent Unprofitable                       | 0.00%      | 11.11%     | 10.00%     | 10.00%     | 23.08%     |
| Return on Assets (median %)                | 1.48       | 1.00       | 0.64       | 0.81       | 0.72       |
| 25th Percentile                            | 0.96       | 0.76       | 0.07       | 0.55       | 0.09       |
| Net Interest Margin (median %)             | 4.50%      | 4.30%      | 4.04%      | 4.31%      | 4.21%      |
| Yield on Earning Assets (median)           | 5.51%      | 6.26%      | 7.41%      | 8.15%      | 7.70%      |
| Cost of Funding Earning Assets (median)    | 1.24%      | 1.69%      | 3.28%      | 3.84%      | 3.44%      |
| Provisions to Avg. Assets (median)         | 0.04%      | 0.08%      | 0.16%      | 0.38%      | 0.37%      |
| Noninterest Income to Avg. Assets (median) | 1.01%      | 0.94%      | 0.64%      | 0.65%      | 0.58%      |
| Overhead to Avg. Assets (median)           | 2.82%      | 2.72%      | 2.85%      | 2.78%      | 3.37%      |
| Liquidity/Sensitivity                      | Dec-03     | Dec-02     | Dec-01     | Dec-00     | Dec-99     |
| Loans to Deposits (median %)               | 78.08%     | 75.20%     | 77.80%     | 85.07%     | 89.07%     |
| Loans to Assets (median %)                 | 62.67%     | 56.40%     | 57.89%     | 67.83%     | 68.16%     |
| Brokered Deposits (# of Institutions)      | 3          | 0          | 0          | 3          | 6          |
| Bro. Deps./Assets (median for above inst.) | 0.05%      | na         | na         | 0.20%      | 0.08%      |
| Noncore Funding to Assets (median)         | 22.08%     | 26.51%     | 32.04%     | 33.36%     | 31.88%     |
| Core Funding to Assets (median)            | 60.57%     | 57.51%     | 55.75%     | 54.30%     | 57.54%     |
| Bank Class                                 | Dec-03     | Dec-02     | Dec-01     | Dec-00     | Dec-99     |
| State Nonmember                            | 4          | 5          | 7          | 7          | 9          |
| National                                   | 1          | 1          | 1          | 1          | 1          |
| State Member                               | 1          | 1          | 0          | 0          | 0          |
| S&L  | 0          | 0          | 1          | 1          | 2          |
| Savings Bank                               | 2          | 2          | 1          | 1          | 1          |
| Stock and Mutual SB                        | 0          | 0          | 0          | 0          | 0          |
| MSA Distribution                           | # of Inst. |            | Assets     | % Inst.    | % Assets   |
| Honolulu HI                                | 8          |            | 31,928,491 | 100.00%    | 100.00%    |